

MID-MICHIGAN LIBRARY LEAGUE

CADILLAC, MICHIGAN

SEPTEMBER 30, 2004

# Auditing Procedures Report

Issued under P.A. 2 of 1968, as amended.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name <b>Mid-Michigan Library League</b>	County <b>Wexford</b>
Audit Date <b>9/30/04</b>	Opinion Date <b>10/25/04</b>	Date Accountant Report Submitted to State: <b>11/17/04</b>	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ Yes ☒ No 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ Yes ☒ No 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☐ Yes ☒ No 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ Yes ☒ No 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ Yes ☒ No 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ Yes ☒ No 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ Yes ☒ No 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ Yes ☒ No 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ Yes ☒ No 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

## We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) <b>Baird, Cotter &amp; Bishop, P.C.</b>			
Street Address <b>134 W. Harris Street</b>		City <b>Cadillac</b>	State <b>MI</b>
Accountant Signature 		ZIP <b>49601</b>	Date <b>11/17/04</b>

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

SEPTEMBER 30, 2004

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# *Baird, Cotter and Bishop, P.C.*

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DALE D. COTTER, C.P.A.

October 25, 2004

## INDEPENDENT AUDITORS' REPORT

Mid-Michigan Library League Board  
Cadillac, Michigan

We have audited the accompanying basic financial statements of the Mid-Michigan Library League (a library cooperative) as of and for the year ended September 30, 2004, which collectively comprise the League's basic financial statements as listed in the table of contents. These basic financial statements are the responsibility of the Mid-Michigan Library League's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the respective financial position of Mid-Michigan Library League as of September 30, 2004, and the respective changes in financial position for the year then ended in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Mid-Michigan Library League has implemented a new financial reporting model as required by the Governmental Accounting Standards Board (GASB) Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - For State and Local Governments* as of October 1, 2003.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*

MID MICHIGAN LIBRARY LEAGUE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Mid Michigan Library League, a Library Cooperative located in Wexford County, Michigan, has implemented the provisions of Governmental Accounting Standards Board Statement 34 (GASB 34). The Management's Discussion and Analysis, a requirement of GASB 34, is intended to be the Mid Michigan Library League's administration's discussion and analysis of the financial results for the fiscal year ended September 30, 2004. In future years, comparative information will be provided.

Generally accepted accounting principles (GAAP), according to GASB 34, require the reporting of two types of financial statements: Fund financial statements and government-wide financial statements.

**A. Fund Financial Statements**

For the most part, the fund financial statements are comparable to prior years' financial statements. The primary difference is that the Account Group (General Fixed Assets) is no longer reported. The fund level statements are reported on a modified accrual basis in that only those assets that are "measurable" and "currently available" are reported. Liabilities are recognized to the extent they are normally expected to be paid with current financial resources.

**B. Government-wide Financial Statements**

The government-wide financial statements, required by GASB 34, are new and being shown for the first time in 2004 for the Mid Michigan Library League. These statements are calculated using full accrual accounting and more closely represent those presented by business and industry. The League's entire assets and liabilities, both short and long-term, are reported. As such, these statements include capital assets, net of related depreciation.

MID MICHIGAN LIBRARY LEAGUE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

**C. Summary of Net Assets**

The following schedule summarizes the net assets at September 30, 2004:

<b>Assets</b>	
Current Assets	\$ 107,834
Non Current Assets	
Capital Assets	46,782
Less Accumulated Depreciation	(5,949)
Total Non Current Assets	40,833
Total Assets	\$ 148,667
<b>Liabilities</b>	
Current Liabilities	\$ 74,043
Non Current Liabilities	31,046
Total Liabilities	105,089
<b>Net Assets</b>	
Invested in Capital Assets Net of Related Debt	35,024
Unrestricted	8,554
Total Net Assets	43,578
Total Liabilities and Net Assets	\$ 148,667

**D. Analysis of Financial Position**

During the fiscal year ended September 30, 2004, the League's net assets increased by \$20,830. A few of the more significant factors affecting net assets during the year are discussed below:

**1. Depreciation Expense**

GASB 34 requires Mid Michigan Library League to maintain a record of annual depreciation expense and the accumulation of depreciation expense over time. The net increase in accumulated depreciation expense is a reduction in net assets.

MID MICHIGAN LIBRARY LEAGUE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

Depreciation expense is recorded on a straight-line basis over the estimated useful lives of the assets. In accordance with GAAP, depreciation expense is calculated based on the original cost of the asset less an estimated salvage value, where applicable. For the fiscal year ended September 30, 2004, \$6,031 was recorded for depreciation expense.

**2. Capital Outlay Acquisitions**

For the fiscal year ended September 30, 2004, \$36,282 of expenditures were capitalized and recorded as assets of the League. These additions to the League's capital assets will be depreciated over time as explained above.

The net effect of the new capital assets and the current year's depreciation is an increase to capital assets in the amount of \$30,251 for the fiscal year ended September 30, 2004.

**E. Results of Operations**

For the fiscal year ended September 30, 2004, the results of operations were:

	<u>Amount</u>	<u>% of Total</u>
<b>Revenues</b>		
Charges for Services	\$ 36,402	7.10%
Grants	32,773	6.40%
State Sources	434,216	84.82%
Investment Earnings	899	.17%
Other	<u>7,738</u>	<u>1.51%</u>
<b>Total Revenues</b>	512,028	100.00%
<b>Expenses</b>		
Culture and Recreation	<u>(491,198)</u>	
Change in Net Assets	\$ <u><u>20,830</u></u>	

**F. Analysis of Significant Revenues**

Significant revenues are discussed in the segments below:

**1. State Sources**

The majority of the state sources is comprised of direct state aid. The League collected \$255,447 in direct state aid for the fiscal year ending September 30, 2004.

MID MICHIGAN LIBRARY LEAGUE

MANAGEMENT'S DISCUSSION AND ANALYSIS

FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

**G. General Fund Budgetary Highlights**

The Uniform Budget Act of the State of Michigan requires that the Board approve the original budget for the upcoming fiscal year prior to its starting on October 1st. Any amendments made to the operating budget must be approved by the Board prior to the close of the year on September 30th.

The following schedule shows a comparison of the original general fund budget, the final amended general fund budget and actual totals from operations:

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE WITH FINAL BUDGET
Total Revenues	\$ 496,579	\$ 513,245	\$ 518,508	\$ 5,263
Total Expenditures	(507,897)	(540,113)	(533,770)	6,343
Other Financing Sources	0	0	6,504	6,504
Total	\$ (11,318)	\$ (26,868)	\$ (8,758)	\$ 18,110

The variance in the Total Revenue Original Budget to Final Budget was an increase of \$16,666. The variance in the Total Expenditures Original Budget to Final Budget was an increase of \$32,216. The increase to the budget for revenues was due to an additional grant the League received. The increase in the budget for expenditures was due to moving out of the Library and into their own building, resulting in higher capital outlay and moving expenses.

**H. Capital Assets**

At September 30, the League had \$46,782 in capital assets, including equipment and vehicles. Depreciation expense for the year amounted to \$6,301, bringing the accumulated depreciation to \$5,949 as of September 30, 2004. Note that the ending accumulated depreciation is lower than the depreciation expense for the year because of current year depreciation taken on assets disposed of during the year.

**I. Factors Bearing on the League's Future**

At the time that these financial statements were prepared and audited, the League was aware of the following items that could significantly affect its financial health in the future:

- Potential increase in costs related to separating from the Cadillac-Wexford Public Library.
- The decrease in State Aid anticipated over the coming years.



MID MICHIGAN LIBRARY LEAGUE  
MANAGEMENT'S DISCUSSION AND ANALYSIS  
FOR FISCAL YEAR ENDED SEPTEMBER 30, 2004

**J. Contacting the League's Financial Management**

This financial report is designed to provide our citizens, taxpayers, customers, and investors and creditors with a general overview of the League's finances and to demonstrate the League's accountability for the money it receives. If you have questions about this report, please contact Mid Michigan Library League, 210 ½ N. Mitchell Street, Cadillac, MI 49601.

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

STATEMENT OF NET ASSETS

SEPTEMBER 30, 2004

ASSETS

CURRENT ASSETS

Cash	\$ 82,019
Due From Other Government	23,765
Notes Receivable	2,050
Total Current Assets	<u>107,834</u>

NON CURRENT ASSETS

Capital Assets	46,782
Less: Accumulated Depreciation	<u>(5,949)</u>
Total Non Current Assets	<u>40,833</u>
TOTAL ASSETS	<u>148,667</u>

LIABILITIES

CURRENT LIABILITIES

Accounts Payable	4,229
Due To Other Governments	59,968
Accrued Wages	7,761
Accrued Payroll Withholdings	590
Current Portion of Long Term Debt	<u>1,495</u>
Total Current Liabilities	<u>74,043</u>

NON CURRENT LIABILITIES

Compensated Absences	26,732
Capital Lease Payable	5,809
Less: Current Portion	<u>(1,495)</u>
Total Non Current Liabilities	<u>31,046</u>

Total Liabilities	<u>105,089</u>
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NET ASSETS

Invested in Capital Assets Net of Related Debt	35,024
Unrestricted	<u>8,554</u>
Total Net Assets	<u>\$ 43,578</u>

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2004

FUNCTIONS/PROGRAMS	EXPENSES	PROGRAM REVENUES		GOVERNMENTAL
		CHARGES FOR	GRANTS	ACTIVITIES
		SERVICES		NET (EXPENSE)
				REVENUE AND
				CHANGES IN
				NET ASSETS
<u>GOVERNMENTAL ACTIVITIES</u>				
General Government				
Culture and Recreation	\$ 491,198	\$ 36,402	\$ 32,773	\$ (422,023)
<u>GENERAL REVENUES</u>				
State Sources				434,216
Investment Earnings				899
Other				7,738
Total General Revenues				442,853
Change in Net Assets				20,830
NET ASSETS - Beginning of Year				22,748
NET ASSETS - End of Year				\$ 43,578

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN  
GOVERNMENTAL BALANCE SHEET - GENERAL FUND  
SEPTEMBER 30, 2004

ASSETS

Cash	\$ 82,019
Due From Other Governments	23,765
Notes Receivable	2,050
	<hr/>
TOTAL ASSETS	\$ 107,834
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LIABILITIES

Accounts Payable	\$ 4,229
Due To Other Governments	59,968
Accrued Wages	7,761
Accrued Payroll Withholdings	590
	<hr/>
Total Liabilities	72,548
	<hr/>

FUND BALANCE

Unreserved	
Unrestricted	35,286
	<hr/>
TOTAL LIABILITIES AND FUND BALANCE	\$ 107,834
	<hr/>

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

RECONCILIATION OF BALANCE SHEET OF GENERAL FUND TO NET ASSETS

SEPTEMBER 30, 2004

Total General Fund Balance		\$ 35,286
Amounts reported for governmental activities in the statement of net assets are different because:		
Capital assets used in governmental activities are not financial resources and are not reported in the fund		
The cost of the capital assets is	46,782	
Accumulated depreciation is	<u>(5,949)</u>	40,833
Long term liabilities are not due and payable in the current period and are not reported in the funds		
Capital Lease Payable		(5,809)
Compensated Absences		<u>(26,732)</u>
NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 43,578</u>

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FINAL BUDGET TO ACTUAL
REVENUES				
Federal Grants				
Library Services and Technology Act	\$ 15,000	\$ 31,666	\$ 32,773	\$ 1,107
State Grants				
Library State Aid				
Direct State Aid	255,837	255,837	255,447	(390)
Indirect State Aid	186,242	186,242	178,769	(7,473)
Charges for Services				
Supply Charges	35,000	35,000	30,512	(4,488)
Other Charges	3,500	3,500	5,890	2,390
Interest and Rents				
Interest Earnings	1,000	1,000	899	(101)
Other Revenue				
Refunds and Reimbursements	0	0	7,501	7,501
Proceeds from Sale of Fixed Assets	0	0	5,600	5,600
Miscellaneous	0	0	1,117	1,117
Total Revenues	496,579	513,245	518,508	5,263
EXPENDITURES				
Culture and Recreation				
Personal Services				
Salaries and Wages	243,906	243,906	252,947	(9,041)
Employee Benefits	70,274	70,274	66,136	4,138
Supplies				
Office Supplies and Postage	25,000	25,000	16,861	8,139
General Operating Supplies	10,000	10,000	13,173	(3,173)
Books and Periodicals	1,100	1,100	831	269
Miscellaneous	300	300	440	(140)
Other Services and Charges				
Advertising	0	0	1,398	(1,398)
Moving Expenses	0	15,000	0	15,000
Purchased Professional and Technical Services	112,317	112,317	109,744	2,573

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND BALANCE  
BUDGETARY COMPARISON SCHEDULE  
GENERAL FUND

YEAR ENDED SEPTEMBER 30, 2004

	ORIGINAL BUDGET	FINAL BUDGET	ACTUAL	VARIANCE FINAL BUDGET TO ACTUAL
Repair and Maintenance	2,500	2,500	2,668	(168)
Rental of Building and Equipment	4,000	4,000	9,911	(5,911)
Other Purchased Services				
Insurance	3,000	3,000	5,437	(2,437)
Communications	4,000	4,000	8,400	(4,400)
Utilities	0	550	897	(347)
Travel, Workshops and Vehicle Expense	7,000	7,000	7,359	(359)
Dues and Memberships	1,500	1,500	1,286	214
Capital Outlay	23,000	39,666	36,282	3,384
Purchases for Member Libraries	325,000	325,000	70,782	254,218
Reimbursements from Member Libraries	(325,000)	(325,000)	(70,782)	(254,218)
Total Expenditures	507,897	540,113	533,770	6,343
Excess of Revenues Over (under) Expenditures	(11,318)	(26,868)	(15,262)	11,606
OTHER FINANCING SOURCES				
Loan Proceeds - Capital Lease	0	0	6,504	6,504
Excess of Revenues and Other Financing Sources Over (Under) Expenditures	(11,318)	(26,868)	(8,758)	18,110
FUND BALANCE - Beginning of Year	44,044	44,044	44,044	0
FUND BALANCE - End of Year	\$ 32,726	\$ 17,176	\$ 35,286	\$ 18,110

The notes to the financial statements are an integral part of this statement.

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

RECONCILIATION OF THE STATEMENT OF REVENUES, EXPENDITURES AND CHANGES IN FUND  
BALANCE OF GENERAL FUND TO THE STATEMENT OF ACTIVITIES

YEAR ENDED SEPTEMBER 30, 2004

Net change in Fund Balance General Fund		\$ (8,758)
Amounts reported for governmental activities are different because:		
Governmental funds report capital outlays as expenditures in the statement of activities. These costs are allocated over their estimated useful lives as depreciation.		
Depreciation Expense	(6,031)	
Capital Outlay	<u>36,282</u>	30,251
Repayments of principal on long-term debt is an expenditure in the governmental funds, but not in statement of activities (where it is a reduction of liabilities).		381
In the statement of activities, only the gain or loss on the sale of fixed assets is reported, whereas in the governmental funds the entire proceeds from the sale increases financial resources. The change in net assets differs from the change in fund balances by the cost of the fixed assets sold net of accumulated depreciation.		(6,480)
Compensated Absences are reported on the accrual method in the statement of activities, and recorded as an expenditure when financial resources are used in the governmental funds:		
Compensated Absences - Beginning of Year		32,168
Compensated Absences - End of Year		<u>(26,732)</u>
CHANGE IN NET ASSETS OF GOVERNMENTAL ACTIVITIES		<u>\$ 20,830</u>

The notes to the financial statements are an integral part of this statement.



MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The basic financial statements of the Mid-Michigan Library League (League) have been prepared in conformity with accounting principles generally accepted in the United States of America (GAAP) as applied to government units. The Governmental Accounting Standards Board (GASB) is the accepted standard-setting body for establishing governmental accounting and financial reporting principles. The more significant of the Library's accounting policies are described below.

In June 1999, the GASB issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Certain of the significant changes in the Statement include the following:

- A Management Discussion and Analysis (MD&A) section providing an analysis of the League's overall financial position and results of operations.
- Financial statements prepared using full accrual accounting for all of the League's activities.
- A change in the fund financial statements to focus on the major funds.

These and other changes are reflected in the accompanying financial statements (including notes to financial statements). The League has implemented the provisions of Statement No. 34 effective October 1, 2003.

**A. Reporting Entity**

The League is a library cooperative formed under Michigan Public Act 89, section 6(a). The League board consists of nine members. Voting member library boards in each member county select one representative to represent the libraries in that county except for member library boards in the counties of Montcalm and Gratiot, who select one representative from the two counties. The League board receives funding from local, state and federal government sources and must comply with the concomitant requirements of these funding source entities. However, the League board is not included in any other governmental "reporting entity" as defined in section 2100, *Codification of Governmental Accounting and Financial Reporting Standards*, since league board members are elected by member libraries, and have decision making authority, the power to designate management, the responsibility to significantly influence operations and primary accountability for fiscal matters.

In evaluating how to define the entity, for financial reporting purposes, management has considered all potential component units. The decision to include a potential component unit in the reporting entity was made by applying the criteria set forth in GAAP. The basic - but not the only - criterion for including a potential component unit within the reporting entity is the governing body's ability to exercise oversight responsibility. The most significant manifestation of this ability is financial interdependency. Other manifestations of the ability to exercise oversight responsibility include, but are not limited to, the selection of governing authority, the designation of management, the ability to significantly influence operations, and accountability for fiscal matters. A second criterion used in evaluating potential component units is the scope of public service. Application of this criterion involves considering

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

whether the activity benefits the League and/or its constituents, or whether the activity is conducted within the geographic boundaries of the League and is generally available to its constituents. A third criterion used to evaluate potential component units for inclusion or exclusion from the reporting entity is the existence of special financing relationships, regardless of whether the League is able to exercise oversight responsibilities. Based upon the application of these criteria, there are no associated organizations included in the League's reporting entity.

**B. Government-wide and Fund Financial Statements**

For the year ending September 30, 2004, the League adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, as amended by GASB Statements No. 37 and No. 38, and applied those standards on a retroactive basis. GASB Statement No. 34 establishes standards for external financial reporting for state and local governments and requires that resources be classified for accounting and reporting purposes into the following three net asset categories.

*Invested in Capital assets, net of related debt* consists of capital assets, net of accumulated depreciation and reduced by outstanding balances for bonds, notes, and other debt that are attributed to the acquisition, construction, or improvement of those assets.

*Restricted net assets* result when constraints placed on net asset use are either externally imposed by creditors, grantors, and contributions, or imposed by law through constitutional provisions or enabling legislation.

*Unrestricted net assets* consist of net assets which do not meet the definition of the two preceding categories. Unrestricted net assets are often designated, to indicate that management does not consider them to be available for general operations. Unrestricted net assets often have constraints on resources which are imposed by management, but can be modified or removed.

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include 1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and 2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Other items not properly included among program revenues are reported instead as general revenues.

The government-wide focus is more on the sustainability of the League as an entity and the change in aggregate financial position resulting from the activities of the fiscal period. The fund financial statements are similar to the financial statements presented in the previous financial reporting model.

MID-MICHIGAN LIBRARY LEAGUE  
CADILLAC, MICHIGAN

NOTES TO FINANCIAL STATEMENTS  
SEPTEMBER 30, 2004

**C. Measurement Focus, Basis of Accounting and Basis of Presentation**

The accounts of the League are organized on the basis of funds. A fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions. The minimum number of funds are maintained consistent with legal and managerial requirements.

**Accrual Method**

The government-wide financial statements are reported using the *economic resources measurement focus* and the *accrual basis of accounting*. Revenues are recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

**Modified Accrual Method**

Governmental fund financial statements are reported using the *current financial resources measurement focus* and the *modified accrual basis of accounting*. Revenues are recognized as soon as they are both measurable and available. Revenues are considered to be *available* when they are collectible within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the League considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Expenditure driven grants are recognized as revenue when the qualifying expenditures have been incurred and all other grant requirements have been met. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

State and federal aid and interest associated with the current fiscal period are all considered to be susceptible to accrual and so have been recognized as revenues of the current fiscal period. All other revenue items are considered to be measurable and available only when cash is received by the Library.

Governmental funds include the following fund type:

The General Fund is the primary operating fund of the League. It is used to account for all financial resources of the League.

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CADILLAC, MICHIGAN

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**D. Assets, Liabilities and Equity**

**1. Deposits and Investments**

The League has adopted a policy that limits its investments to investments authorized by Act 20 of 1943, as amended, and may invest in the following:

- i. Bonds, securities, and other obligations of the United States or an agency or instrumentality of the United States.
- ii. Certificates of deposit, savings accounts, deposit accounts, or depository of a financial institution.
- iii. Commercial paper rated at time of purchase within the two highest classifications established by not less than two standard rating services and that matures not more than 270 days after the date of purchase.
- iv. Repurchase agreements consisting of instruments listed in (i).
- v. Banker's acceptances of United States banks.
- vi. Obligations of this state or any of its political subdivisions that at the time of purchase are rated investment grade by not less than one standard rating service.
- vii. Mutual funds registered under the Investment Company Act of 1940, title I of chapter 686, 54 Stat. 789 15 U.S.C. 80a-3 and 80a-4 to 80a-64, with the authority to purchase only investment vehicles that are legal for direct investment by the League. This authorization is limited to securities whose intention is to maintain a net asset value of \$1.00 per share.
- viii. Investment pools through an interlocal agreement under the Urban Cooperation Act of 1967, 1967 (Ex Sess) PA 7, MCL 124.512.
- ix. Investment pools organized under the Surplus Funds Investment Pool Act, 1982 PA 367, 129.118.

**2. Capital Assets**

Capital assets purchased or acquired are capitalized at historical cost or estimated historical cost. Donated fixed assets are valued at their estimated fair market value on the date received.

The costs of normal maintenance and repairs that do not add to the value of the asset or materially extend assets' lives are not capitalized. Improvements are capitalized and depreciated over the remaining useful lives of the related fixed assets.

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Equipment	5 years
Furniture and Fixtures	10 years
Vehicles	10 years

3. Compensated Absences

It is the League's policy to permit employees to accumulate earned but unused sick pay benefits. A liability for these amounts is reported in governmental funds only if they have matured, for example, as a result of employee resignations and retirements.

4. Long-term Obligations

In the government-wide financial statements, long-term debt and other long-term obligations are reported as liabilities in the statement of net assets.

5. Fund Balance

In the financial statements, the unreserved fund balances for governmental funds represent the amount available for budgeting future operations. Reservations of fund balance are for amounts that are not available for appropriation or are legally restricted by outside parties for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

6. Use of Estimates

The presentation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

II. STEWARDSHIP, COMPLIANCE AND ACCOUNTABILITY

A. **Budgetary Information**

The League follows these procedures in establishing the budgetary data reflected in the financial statements:

1. The director of the League annually prepares an operating budget taking into consideration the recommendations of the advisory council. The operating budget includes proposed expenditures and the means of financing them.
2. The budget is approved by the League board prior to the start of the fiscal year which it covers.

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3. All transfers of budget amounts between accounts within the General Fund must be approved by the League board.
4. The budget for the General Fund is adopted on a basis consistent with accounting principles generally accepted in the United States of America (GAAP). Budgeted amounts are as originally adopted, or as amended by the League board.
5. Budget appropriations lapse at the end of the fiscal year.
6. Encumbrance accounting, under which purchase orders, contracts and other commitments for expenditure of monies are recorded in order to reserve that portion of the applicable appropriation, is not employed by the League because, at present, it is not considered necessary to assure effective budgetary control or to facilitate effective cash planning and control.

**III. DETAILED NOTES ON ALL FUNDS AND ACCOUNT GROUPS**

**A. Deposits and Investments**

At year end, the carrying amount of the League's deposits was \$82,019 and the bank balance was \$102,232, of which \$102,232 was covered by Federal Depository Insurance. The League maintains a checking account and savings account at Fifth Third Bank of Northern Michigan, a savings account at Citizen's Bank and Northwestern Bank of Cadillac and a savings account at Chemical Bank West of Cadillac.

**B. Due from Other Governments**

Amounts due from other governments of \$23,765 are for reimbursements from member libraries for supplies and materials and grant money yet to be received. Substantially all of these receivables are expected to be collected within sixty days of the balance sheet date.

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CADILLAC, MICHIGAN

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**Capital Assets**

A summary of changes in the League's capital assets follows:

	Balance October 1, 2003	Additions	Deletions	Balance September 30, 2004
Capital assets:				
Equipment	\$ 10,500	\$ 36,282	\$ 0	\$ 46,782
Vehicles	25,281	0	25,281	0
Subtotal	\$ 35,781	\$ 36,282	\$ 25,281	\$ 46,782
Accumulated Depreciation	18,719	6,031	18,801	5,949
Net capital assets	\$ 17,062	\$ 30,251	\$ 6,480	\$ 40,833

**D. Long-Term Debt**

A summary of the Long-Term Debt transactions for the League for the year ended September 30, 2004, is as follows:

	CAPITAL LEASE	COMPENSATED ABSENCES
Long-Term Debt at October 1, 2003	\$ 0	\$ 32,168
Liabilities Increase (Decrease)	5,809	(5,436)
Liabilities Retired or Classified as Current	(1,495)	0
Long-Term Debt at September 30, 2004	\$ 4,314	\$ 26,732

**E. Compensated Absences Liability**

Employees of the Mid-Michigan Library League are entitled to paid vacation and paid sick days depending on job classification, length of service and other factors. At September 30, 2004, the accrued expense for compensated absences was \$26,732.

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IV. OTHER INFORMATION

A. **Building Lease**

The building in which the League was located is owned by the City of Cadillac. The League sub-leased a portion of the building from the Cadillac/Wexford Public Library until April 30, 2004.

Starting May 1, 2004, the League entered into a 24-month operating lease for a portion of a building in downtown Cadillac, Michigan for \$800 per month. The total cost for the lease was \$4,800 for the year ended September 30, 2004. The future minimum lease payments are as follows:

Year Ending December 31,

2005	\$ 9,600
2006	<u>4,800</u>
	<u>\$ 14,400</u>

B. **Leases**

Operating Lease - The League leases a postage machine under a noncancelable operating lease. The total cost for the lease was \$288 for the year ended September 30, 2004. The future minimum lease payments are as follows:

Year Ending December 31,

2005	\$ 1,152
2006	1,152
2007	1,152
2008	1,152
2009	<u>864</u>
	<u>\$ 5,472</u>



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Capital Lease - The League has entered into a lease agreement as lessee for financing the acquisition of an all in one copier/fax/printer. A \$1 purchase option exists at the end of the lease. This lease qualifies as a capital lease for accounting purposes. The assets acquired through the lease are as follows:

ASSETS	<u>AMOUNT</u>
Equipment	\$ 6,504
Less: Accumulated Depreciation	<u>(434)</u>
 TOTAL	 <u>\$ 6,070</u>

The future minimum lease obligations of these minimum lease payments as of September 30, 2004 are as follows:

Year Ending September 30,	<u>Principal</u>	<u>Interest</u>	<u>Total</u>
2005	\$ 1,495	\$ 131	\$ 1,626
2006	1,534	92	1,626
2007	1,573	53	1,626
2008	<u>1,207</u>	<u>12</u>	<u>1,219</u>
Total minimum lease payments	<u>\$ 5,809</u>	<u>\$ 288</u>	<u>\$ 6,097</u>

**C. Retirement Commitments**

The League's participates in an agent multi-employer defined benefit pension plan with the Municipal Employees Retirement System (MERS), administered by the State of Michigan for coverage of substantially all of the League's general employees.

*Plan Description.* Substantially all full-time employees of the League are members of the **Municipal Employees Retirement System of Michigan** (MERS) which provides retirement, disability and death benefits to plan members and beneficiaries. MERS is an agent multiple-employer pension plan administered by the State of Michigan. Act No. 427 of the Public Acts of 1984, as amended, assigns the authority to establish and amend the benefit provisions of the plans that participate in MERS to the respective employer entities. In this case, the authority rests with the League. The MERS issues a publicly available financial report that includes statements and required supplementary information for MERS. That report may be obtained by writing to The Retirement Board, Municipal Employees Retirement System of Michigan, 1134 Municipal Way, Lansing, MI 48917.

*Funding Policy.* MERS members are not required to make any contributions to the plan. The League is required to contribute at an actuarially determined rate; the current rate is 6.28% of annual covered

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CADILLAC, MICHIGAN

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payroll. The contribution requirements of plan members and the League are established and may be amended by the MERS board of trustees.

*Annual Pension Cost.* The required contribution was most recently determined as part of the December 31, 2003 actuarial valuation using the entry-age actuarial cost method. The actuarial assumptions include (a) investment rate of return (net of administrative expenses), and (b) projected salary increases. Both (a) and (b) include an inflation component. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility in the market value of investments over a five-year period. Positive unfunded accrued liability (if any) is amortized as a level percentage of payroll over a closed period of 30 years, while negative unfunded liability (if any) is amortized as a level percentage of payroll over a closed period of 10 years.

Currently, the League is in the process of separating from the Cadillac-Wexford Public Library as a single employer and will establish itself as a separate entity for MERS. When this process is complete, additional disclosures will be included in this report.

**D. Concentration of Credit Risk**

Financial instruments which potentially subject the League to a concentration of credit risks consist principally of receivables from member libraries. Even though no one member library accounts for a significant portion of this receivable, they are all heavily reliant on state and local revenues. During this period of governmental budget cutting, there is a potential risk that some member libraries could lose significant revenue sources, causing them to default on their obligations to the League. No provision for uncollectible accounts has been made.

**E. Risk Management**

The League is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees, and natural disasters. The League participates in two distinct pools of municipalities within the State of Michigan for self-insuring property and casualty and workers' disability compensation. The pools are considered public entity risk pools. The League pays annual premiums to each pool for the respective insurance coverage. In the event a pool member's covered loss exceeds the pools limits, all further payments become the sole obligation of the member. The League has not been notified of any shortfalls in the pools in the current year or the prior three years.

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## *Baird, Cotter and Bishop, P.C.*

CERTIFIED PUBLIC ACCOUNTANTS



October 25, 2004

Mid-Michigan Library League  
Cadillac, Michigan

Dear Members of the Board and Administrators:

During our examination of the financial statements of the Mid-Michigan Library League for the year ended September 30, 2004, we noted the following items which we believe should be considered for adoption into the management and accounting procedures of the League:

### Amounts Owed to Cadillac-Wexford Public Library

Currently, the League owes the Cadillac-Wexford Public Library approximately \$59,968. About \$17,310 of the amount owed to the Library is current year expenditures. We have met several times throughout the year with the League and the Library to discuss and explain the amount owed to the Library from Mid-Michigan.

### Capitalization Policy

The League has not established a capitalization policy for accounting for its fixed assets as required by GASB 34, effective October 1, 2003. At the end of our audit engagement last year, we recommended to the former director that the League adopt a policy during the 2003-2004 year, which was not done. We recommend implementing a policy immediately to comply with GASB 34 requirements. On October 28, 2004, we emailed the interim director a sample of a capitalization policy for the League.

### Separation From Cadillac-Wexford Public Library

During the fiscal year, the League moved their physical location out of the Cadillac-Wexford Public Library. Currently, anything that the League owes the Library will be invoiced by the Library and Mid-Michigan will pay them like any other vendor. By ending the arrangement, internal controls for both organizations are strengthened.

### Current Year Results of Operations

For the year ended September 30, 2004, the League showed expenditures over revenues of approximately \$8,758. This loss is compared to a prior period profit of \$22,183. The change of \$30,641 is concerning because the League Fund Balance is now down to \$35,586. We recommend the League carefully monitor revenues and expenditures for the current year, and compare them to budgeted amounts in order to ensure the League does not spend in excess of its revenues. Keep in mind, however, that capital outlay in the current year was \$36,282. If the League had not spent anything on capital outlay this year, the bottom line would have actually been a profit of \$21,620.

We wish to take this opportunity to thank the Board for awarding this firm the audit assignment of the League, and the management for their assistance in helping us fulfill this audit assignment. If you have any questions relative to the preceding comments and recommendations or other areas of your annual audit, please feel free to contact us.

BAIRD, COTTER AND BISHOP, P.C.

*Baird, Cotter & Bishop, P.C.*